Rural Development – Oregon
Business & Cooperative Programs

www.rurdev.usda.gov/or/rbs.htm

1201 NE Lloyd Blvd., Ste. 801
Portland, OR 97232

Phone: (503) 414-3366
TDD: (503) 414-3387
Fax: (503) 414-3397

DEBT REFINANCING REQUIREMENTS

Business & Industry (B&I) Guaranteed Loan Program

Debt refinancing is an authorized B&I purpose when it is in keeping with the program's underlying goal – i.e., to create and save jobs in rural areas. This standard is typically met either (1) by significantly improving a business's cash flow or (2) by supporting a business's expansion:

1. Significantly Improving Cash Flow

The B&I loan must provide improved cash flow by offering better rates & terms than the debt being refinanced.

A 20% reduction in debt service cost (which is also the SBA benchmark) is typically required for the improvement in cash flow to be considered "significant." (Example: After refinancing, annual debt service drops from $100,000 to $80,000 – a $20,000 savings and a 20% improvement.)

The refinance of a loan with a balloon payment clearly improves cash flow significantly (even if the annual debt service cost is not reduced by 20%) and is therefore authorized.

2. Support Business Expansion

Debt refinancing is allowed if it is being done in connection with a business expansion project and the refinancing is necessary in for the lender to obtain the lien priority position it requires. (Example: A property with an existing 1st deed of trust is to be improved with a B&I loan. The lender requires a 1st lien position. So, a B&I loan is made both to refinance the existing 1st and to improve the property. The B&I loan will then be secured by a 1st lien.)

Special Cases

Commercial lease projects (retail centers, office buildings, industrial facilities, etc.):

Refinancing for these types of businesses is typically not authorized, since the only jobs connected with such facilities are those of the tenants, and the debt refinancing does not have any financial impact on the tenants.

Refinancing of such businesses may be justified if the main thrust of the B&I loan is to expand, renovate, or revitalize the facility – which would have a positive impact on the tenant businesses and the jobs situated there.

Refinancing Portfolio Debt

If a lender wishes to refinance a loan already in their portfolio:

- Refinancing must be a secondary purpose (less than 50%) of loan. The majority of the loan must be other purposes (e.g. real estate improvement, M&E, working capital, etc.).

and

- The loan being refinanced must have been current for at least the past 12 months (and not merely because of debt restructuring).

Refinancing Interim Construction Loans – i.e., Providing Take-Out Financing

Providing long-term, take-out financing is not considered to be "refinancing of portfolio debt" provided the lender submits a preapplication to USDA before extending the interim financing.

Refinancing Existing SBA, B&I and Other Government-Supported Loans

There is no prohibition on refinancing such loans, provided the refinancing is truly necessary and meets all other B&I refinancing criteria.